

Advertising expenses totaled \$22 billion and comprised 4 percent of food expenditures in 1998. Food manufacturing accounts for about half of total food industry advertising expenditures, with food service contributing another 25 percent, and food retailing about 15 percent. A mix of print and broadcast media are used to promote food industry products. In recent years, food service and food retail firms have experienced the largest increases in advertising expenditures.

Depreciation, rent, and repairs together came to \$53 billion and accounted for 9 percent of the 1998 consumer food dollar. The food service sector incurred about 40 percent of these costs, while food stores made up about a quarter of the total. Manufacturing and wholesaling establishments together accounted for the remaining 35 percent. Food service establishments incurred high property rental expenses, and thus had the highest total of any food sector.

Net interest accounts for only 2.5 percent of total consumer expenditures, but grew sharply over the last decade, rising to \$13 billion in 1998. Most of the increase occurred in the food store sector, and reflected higher debt acquired due to merger and acquisition activity, particularly leveraged buyouts. Moreover, net interest grew as the result of loans booked during years of rising interest rates, such as 1995.

■ Food Prices and the Farm-to-Retail Price Spread

In the United States, total retail food prices (including meals served in restaurants) rose 36.0 percent over the last 10 years (1988-98). Prices of food eaten away from home increased 32.3 percent, while retail food store prices increased 38.2 percent.

Prices of goods and services, excluding food, in the Consumer Price Index climbed 38.1 percent over the same 10 years. Transportation was up 30.3 percent; housing, 35.4 percent; medical care, 74.7 percent; and apparel and upkeep, 15.3 percent.

Food prices include payments for both the raw farm product and marketing services. In 1998 the farm value, or payment for the raw product, averaged 2.2 percent of the retail cost of a market basket of U.S. farm foods sold in food stores. The other 7.8 percent, the farm-retail price spread, consisted of all processing, transportation, wholesaling, and retailing charges incurred after farm products leave the farm.

Farm-retail spreads have increased every year for the past 30 years, largely reflecting rising costs of labor, packaging, and other processing and marketing inputs. In 1998, farm-to-retail spreads rose an average of 3.6 percent and farmers received 2.7 percent less for the food they produced. The farm value as a percentage of retail prices was about 1 percent lower in 1998 than in 1997. Meanwhile, retail food prices rose 2.1 percent. Widening farm-retail spreads continued to push up food costs in 1998.

The percentage of the retail price accounted for by the farm value varies widely among foods. Generally, it is larger for animal products than for crop-based foods, and smaller for foods that require considerable processing and packaging. The percentage generally decreases as the degree of processing increases. For example, the farm value of meat was 30 percent in 1998, while cereal and bakery products

had a farm value averaging only 6 percent. The farm inputs needed to feed, house, and maintain the health of livestock are greater than the inputs required to grow crops. The additional manufacturing processes required for cereal and bakery products also result in a lower farm value than for meats. Most other foods also entail fewer inputs at the farm level. Other factors that influence the farm value percentage include transportation costs, product perishability, and retailing costs. Higher levels of these marketing factors tend to lower the farm value percentage.

Table 1-1.
Farm value as a percentage of retail price for domestically produced foods, 1988 and 1998

Items	1988	1998
Livestock products:		
Meats	45	30
Dairy	40	36
Poultry	49	43
Eggs	53	42
Crop Products:		
Cereal and bakery	9	6
Fresh fruits	25	17
Fresh vegetables	28	20
Processed fruits and vegetables	28	18
Fats and oils	24	22

Figure 1-12.
Distribution of consumer expenditures

